

## Humana Reports First Quarter 2019 Financial Results; Raises Full Year 2019 Financial Guidance

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- *1Q19 earnings per diluted common share (EPS) of \$4.16 on a GAAP basis, \$4.48 on an Adjusted basis*
- *2019 EPS guidance raised to approximately \$16.63 to \$16.88 on a GAAP basis, \$17.25 to \$17.50 on an Adjusted basis, meaningfully exceeding long-term growth targets*
- *Strong start to 2019 driven by better than expected utilization in the individual Medicare Advantage business*
- *Increased full year expected individual Medicare Advantage membership growth to 415,000 to 440,000 members, representing approximately 14 percent growth in 2019*

LOUISVILLE, Ky.--(BUSINESS WIRE)--Humana Inc. (NYSE: HUM) today reported consolidated pretax income and diluted earnings per common share (EPS) for the quarter ended March 31, 2019 (1Q19) versus the quarter ended March 31, 2018 (1Q18) as follows:

**Consolidated pretax income**

<i>In millions</i>	<b>1Q19 (a)</b>	1Q18 (b)
<b>Generally Accepted Accounting Principles (GAAP)</b>	<b>\$ 746</b>	\$ 707
Amortization associated with identifiable intangibles	<b>18</b>	30
Put/call valuation adjustments associated with 40% minority interest in Kindred at Home	<b>39</b>	-
Segment earnings associated with the Individual Commercial Segment	-	(53)
<b>Adjusted (non-GAAP)</b>	<b>\$ 803</b>	\$ 684

**Diluted earnings per common share (EPS)**

	<b>1Q19 (a)</b>	1Q18 (b)
<b>GAAP</b>	<b>\$ 4.16</b>	\$ 3.53
Amortization associated with identifiable intangibles	<b>0.10</b>	0.17
Put/call valuation adjustments associated with 40% minority interest in Kindred at Home	<b>0.22</b>	-
Segment earnings associated with the Individual Commercial segment	-	(0.29)
Adjustments to provisional estimates for the income tax effects related to the tax reform law enacted on December 22, 2017 (Tax Reform Law)	-	(0.05)
<b>Adjusted (non-GAAP)</b>	<b>\$ 4.48</b>	\$ 3.36

The company has included financial measures throughout this earnings release that are not in accordance with GAAP. Management believes that these measures, when presented in conjunction with the comparable GAAP measures, are useful

to both management and its investors in analyzing the company's ongoing business and operating performance. Consequently, management uses these non-GAAP (Adjusted) financial measures as indicators of the company's business performance, as well as for operational planning and decision making purposes. Non-GAAP (Adjusted) financial measures should be considered in addition to, but not as a substitute for, or superior to, financial measures prepared in accordance with GAAP. All financial measures in this press release are in accordance with GAAP unless otherwise indicated. Please refer to the footnotes for a detailed description of each item adjusted out of GAAP financial measures to arrive at a non-GAAP (Adjusted) financial measure.

"In a year of strong Medicare Advantage membership growth for the industry, driven in no small part by the health insurance industry fee suspension and the resulting increased benefits offered to seniors nationwide, we are pleased to be able to deliver industry leading individual Medicare Advantage membership growth of 415,000 to 440,000 members together with above target earnings growth for 2019." said Bruce D. Broussard, Humana's President and Chief Executive Officer. "Each day, more and more seniors are choosing Medicare Advantage, a program that today has over 22 million members, demonstrating the compelling value of a program that delivers affordable, quality care for seniors and improved clinical outcomes as payers and providers work together to understand each member's whole health and help them navigate the complex healthcare system."

### **Summary of 1Q19 Results**

GAAP and Adjusted pretax income and EPS results for 1Q19 exceeded management expectations, primarily driven by lower than anticipated utilization in the individual Medicare Advantage business.

The company's year-over-year consolidated GAAP and Adjusted pretax results in 1Q19 were favorably impacted by the solid performance of the company's Medicare Advantage business and significant operating cost efficiencies driven by productivity initiatives previously implemented. As expected, the company's higher-than-anticipated individual Medicare Advantage membership growth during the recently completed Annual Election Period (AEP) had a muted impact on the consolidated earnings in 1Q19. While new Medicare Advantage members increase revenues, on average, they have a breakeven impact on pretax earnings in the first year as they were not previously engaged in clinical programs or appropriately documented under the Centers for Medicare and Medicaid Services (CMS) risk-adjustment model.

The year-over-year changes in GAAP and Adjusted EPS for 1Q19 reflected the same factors impacting GAAP and Adjusted consolidated pretax income comparisons as well as the beneficial impact of the temporary suspension of the health insurance industry fee (HIF) in 2019. In addition, year-over-year comparisons of both GAAP and Adjusted EPS are favorably impacted by a lower number of shares used to compute EPS, primarily reflecting share repurchases.

Please refer to the consolidated and segment highlight sections that follow for additional discussion of the factors impacting the year-over-year results. In addition, below is a summary of key consolidated and segment statistics comparing 1Q19 to 1Q18.

#### **Humana Inc. Summary of Quarter Results**

*(dollars in millions, except per share amounts)*

	<b>1Q19 (a)</b>	1Q18 (b)
<b>Consolidated results:</b>		
<b>Revenues - GAAP</b>	<b>\$16,107</b>	<b>\$14,279</b>
<b>Revenues - Adjusted</b>	<b>\$16,107</b>	<b>\$14,284</b>
<b>Pretax income - GAAP</b>	<b>\$ 746</b>	<b>\$ 707</b>
<b>Pretax income - Adjusted</b>	<b>\$ 803</b>	<b>\$ 684</b>
<b>EPS - GAAP</b>	<b>\$ 4.16</b>	<b>\$ 3.53</b>
<b>EPS - Adjusted</b>	<b>\$ 4.48</b>	<b>\$ 3.36</b>
<b>Benefits expense ratio - GAAP</b>	<b>86.2%</b>	<b>84.5%</b>
<b>Benefits expense ratio - Adjusted</b>	<b>86.2%</b>	<b>84.9%</b>
<b>Operating cost ratio - GAAP</b>	<b>10.4%</b>	<b>12.4%</b>
<b>Operating cash flows- GAAP</b>	<b>\$ 896</b>	<b>\$ 3,686</b>
<b>Operating cash flows- Adjusted</b>	<b>\$ 896</b>	<b>\$ 351</b>
<b>Parent company cash and short term investments</b>	<b>\$ 721</b>	<b>\$ 567</b>
<b>Debt-to-total capitalization</b>	<b>36.0%</b>	<b>33.9%</b>
<b>Retail segment results:</b>		
<b>Revenues - GAAP</b>	<b>\$14,013</b>	<b>\$12,107</b>
<b>Benefits expense ratio - GAAP</b>	<b>88.3%</b>	<b>87.4%</b>
<b>Operating cost ratio - GAAP</b>	<b>8.2%</b>	<b>10.1%</b>
<b>Segment earnings - GAAP</b>	<b>\$ 465</b>	<b>\$ 267</b>
<b>Segment earnings - Adjusted</b>	<b>\$ 469</b>	<b>\$ 273</b>

**Group and Specialty segment results:**

<b>Revenues - GAAP</b>	<b>\$ 1,887</b>	<b>\$ 1,970</b>
<b>Benefits expense ratio - GAAP</b>	<b>76.4%</b>	<b>73.2%</b>
<b>Operating cost ratio - GAAP</b>	<b>21.9%</b>	<b>23.6%</b>
<b>Segment earnings - GAAP</b>	<b>\$ 165</b>	<b>\$ 211</b>
<b>Segment earnings - Adjusted</b>	<b>\$ 166</b>	<b>\$ 212</b>
<b>Healthcare Services segment results:</b>		
<b>Revenues - GAAP</b>	<b>\$ 6,098</b>	<b>\$ 5,663</b>
<b>Operating cost ratio - GAAP</b>	<b>96.6%</b>	<b>96.2%</b>
<b>Segment earnings - GAAP</b>	<b>\$ 175</b>	<b>\$ 173</b>
<b>Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) (c)</b>	<b>\$ 238</b>	<b>\$ 222</b>

**2019 Earnings Guidance**

Humana has raised its GAAP and Adjusted EPS guidance for the year ended December 31, 2019 (FY19). The company now expects FY19 GAAP EPS guidance to be in a range of approximately \$16.63 to \$16.88, while Adjusted EPS is expected to be in a range of approximately \$17.25 to \$17.50.

A reconciliation of GAAP to Adjusted EPS for the company's FY19 projections as well as comparable numbers for the year ended December 31, 2018 (FY 2018) is shown below for comparison.

<b>Diluted earnings per common share</b>	<b>FY 2019 Guidance (d)</b>	<b>FY 2018 (e)</b>
<b>GAAP</b>	<b>~\$16.63 to \$16.88</b>	<b>\$ 12.16</b>
Amortization of identifiable intangibles	0.40	0.49
Put/call valuation adjustments associated with 40% minority interest in Kindred at Home	0.22	0.18
Loss on sale of KMG America Corporation (KMG), a wholly-owned subsidiary	-	2.41
Segment earnings associated with the Individual Commercial segment	-	(0.41)
Adjustments to provisional estimates for the income tax effects related to the Tax Reform Law	-	(0.28)
<b>Adjusted (non-GAAP) - FY 2019 projected</b>	<b>~\$17.25 to \$17.50</b>	<b>\$ 14.55</b>

"Early indicators in 2019 are positive, with utilization trending better than our initial expectations for the Retail segment," said Brian A. Kane, Chief Financial Officer. "This strong performance has allowed us to raise our full year Adjusted EPS guidance to a range of \$17.25 to \$17.50, reflecting expected Adjusted EPS growth of 19 to 20 percent, while delivering compelling individual Medicare Advantage membership growth significantly in excess of the industry."

**2020 Rate Notice**

On April 1, 2019, CMS published its 2020 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies and Final Call Letter (the Final Rate Notice). The company expects the Final Rate Notice to result in a 2.20 percent<sup>(f)</sup> rate increase for Humana's individual Medicare Advantage business versus CMS' estimate for the sector of 2.53 percent, excluding the impact of Employer Group Waiver Plan (EGWP) funding changes, on a comparable basis. The difference between the Humana projection and the CMS projection results from small differences in various components of the rate.

**Detailed Press Release**

Humana's full earnings press release including the statistical pages has been posted to the company's Investor Relations site and may be accessed at <https://humana.gcs-web.com/> or via a current report on Form 8-K filed by the company with the Securities and Exchange Commission this morning (available at [www.sec.gov](http://www.sec.gov) or on the company's website).

**Conference Call**

Humana will host a conference call at 9:00 a.m. eastern time today to discuss its financial results for the quarter and the company's expectations for future earnings.

All parties interested in the company's 1Q19 earnings conference call are invited to dial 888-625-7430. No password is required. The audio-only webcast of the 1Q19 earnings call may also be accessed via Humana's Investor Relations page at [humana.com](http://humana.com). The company suggests participants for both the conference call and those listening via the web dial in or sign on at least 15 minutes in advance of the call.

For those unable to participate in the live event, the archive will be available in the Historical Webcasts and Presentations section of the Investor Relations page at [humana.com](http://humana.com), approximately two hours following the live webcast. Telephone replays will also be available from approximately 2:00 p.m. eastern time on May 1, 2019 until 11:00 p.m. eastern time on June 26, 2019 and can be accessed by dialing 855-859-2056 and providing the conference ID #3292269.

## **Footnotes**

### **(a) 1Q19 Adjusted results exclude the following:**

- Amortization expense for identifiable intangibles of approximately \$18 million pretax, or \$0.10 per diluted common share; GAAP measures affected in this release include consolidated pretax, EPS, and segment earnings (for respective amortization expense for the Retail and Group and Specialty segments).
- Put/call valuation adjustments of approximately \$39 million, or \$0.22 per diluted common share, associated with Humana's 40% minority interest in Kindred at Home. GAAP measures affected in this release include consolidated pretax and EPS.

### **(b) 1Q18 Adjusted results exclude the following:**

- Amortization expense for identifiable intangibles of approximately \$30 million pretax, or \$0.17 per diluted common share; GAAP measures affected in this release include consolidated pretax, EPS, and segment earnings (for respective amortization expense for the Retail and Group and Specialty segments).
- Segment earnings of \$53 million, or \$0.29 per diluted common share, for the company's Individual Commercial segment given the company's exit on January 1, 2018, as previously disclosed. GAAP measures affected in this release include consolidated pretax income, EPS, consolidated revenues, consolidated benefit ratio, and consolidated operating cost ratio.
- Adjustment of \$0.05 per diluted common share related to provisional estimates for the income tax effects related to the Tax Reform Law. The only GAAP measure affected in this release is EPS.

(c) The Healthcare Services segment Adjusted EBITDA includes GAAP segment earnings with adjustments to add back depreciation and amortization expense, interest expense, and income taxes. The Adjusted EBITDA includes results from the all lines of business within the segment and the impact of Humana's 40% minority interest in Kindred at Home.

### **(d) FY 2019 Adjusted EPS projections exclude the following:**

- Amortization expense for identifiable intangibles of approximately \$0.40 per diluted common share.
- Put/call valuation adjustments of approximately \$0.22 per diluted common share, associated with Humana's 40% minority interest in Kindred at Home. FY 2019 GAAP EPS guidance excludes the impact of future value changes of the Kindred at Home put/call option, which cannot be estimated.

### **(e) FY 2018 Adjusted results exclude the following:**

- Amortization expense for identifiable intangibles of approximately \$90 million pretax, or \$0.49 per diluted common share.
- Put/call valuation adjustments of approximately \$33 million, or \$0.18 per diluted common share, associated with Humana's 40% minority interest in Kindred at Home.
- Loss of approximately \$786 million pretax, or \$2.41 per diluted common share, associated with the company's sale of its wholly-owned subsidiary, KMG.
- Segment earnings of approximately \$74 million, or \$0.41 per diluted common share, for the company's Individual Commercial segment given the company's exit on January 1, 2018, as previously disclosed.
- Adjustment of \$0.28 per diluted common share related to provisional estimates for the income tax effects related to the Tax Reform Law.

(f) Excludes estimates of changes in revenues associated with increased accuracy of risk coding.

## **Cautionary Statement**

This news release includes forward-looking statements regarding Humana within the meaning of the Private Securities Litigation Reform Act of 1995. When used in investor presentations, press releases, Securities and Exchange Commission (SEC) filings, and in oral statements made by or with the approval of one of Humana's executive officers, the words or phrases like "expects," "believes," "anticipates," "intends," "likely will result," "estimates," "projects" or variations of such words and similar expressions are intended to identify such forward-looking statements.

These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and assumptions, including, among other things, information set forth in the "Risk Factors" section of the company's SEC filings, a summary of which includes but is not limited to the following:

- If Humana does not design and price its products properly and competitively, if the premiums Humana receives are insufficient to cover the cost of healthcare services delivered to its members, if the company is unable to implement clinical initiatives to provide a better healthcare experience for its members, lower costs and appropriately document the risk profile of its members, or if its estimates of benefits expense are inadequate, Humana's profitability could be materially adversely affected. Humana estimates the costs of its benefit expense payments, and designs and prices its products accordingly, using actuarial methods and assumptions based upon, among other relevant factors, claim payment patterns, medical cost inflation, and historical developments such as claim inventory levels and claim receipt patterns. The company continually reviews estimates of future payments relating to benefit expenses for services

incurred in the current and prior periods and makes necessary adjustments to its reserves, including premium deficiency reserves, where appropriate. These estimates, however, involve extensive judgment, and have considerable inherent variability because they are extremely sensitive to changes in claim payment patterns and medical cost trends, so any reserves the company may establish, including premium deficiency reserves, may be insufficient.

- If Humana fails to effectively implement its operational and strategic initiatives, particularly its Medicare initiatives and state-based contract strategy, the company's business may be materially adversely affected, which is of particular importance given the concentration of the company's revenues in these products. In addition, there can be no assurances that the company will be successful in maintaining or improving its Star ratings in future years.
- If Humana fails to properly maintain the integrity of its data, to strategically implement new information systems, to protect Humana's proprietary rights to its systems, or to defend against cyber-security attacks, the company's business may be materially adversely affected.
- Humana is involved in various legal actions, or disputes that could lead to legal actions (such as, among other things, provider contract disputes and qui tam litigation brought by individuals on behalf of the government), governmental and internal investigations, and routine internal review of business processes any of which, if resolved unfavorably to the company, could result in substantial monetary damages or changes in its business practices. Increased litigation and negative publicity could also increase the company's cost of doing business.
- As a government contractor, Humana is exposed to risks that may materially adversely affect its business or its willingness or ability to participate in government healthcare programs including, among other things, loss of material government contracts, governmental audits and investigations, potential inadequacy of government determined payment rates, potential restrictions on profitability, including by comparison of profitability of the company's Medicare Advantage business to non-Medicare Advantage business, or other changes in the governmental programs in which Humana participates. Changes to the risk-adjustment model utilized by CMS to adjust premiums paid to Medicare Advantage, or MA, plans according to the health status of covered members, including proposed changes to the methodology used by CMS for risk adjustment data validation audits that fail to address adequately the statutory requirement of actuarial equivalence, if implemented, could have a material adverse effect on our operating results, financial position and cash flows.
- The Healthcare Reform Law, including The Patient Protection and Affordable Care Act and The Healthcare and Education Reconciliation Act of 2010, could have a material adverse effect on Humana's results of operations, including restricting revenue, enrollment and premium growth in certain products and market segments, restricting the company's ability to expand into new markets, increasing the company's medical and operating costs by, among other things, requiring a minimum benefit ratio on insured products, lowering the company's Medicare payment rates and increasing the company's expenses associated with a non-deductible health insurance industry fee and other assessments; the company's financial position, including the company's ability to maintain the value of its goodwill; and the company's cash flows. Additionally, potential legislative or judicial changes, including activities to invalidate, repeal or replace, in whole or in part, the Health Care Reform Law, creates uncertainty for Humana's business, and when, or in what form, such legislative or judicial changes may occur cannot be predicted with certainty.
- Humana's business activities are subject to substantial government regulation. New laws or regulations, or changes in existing laws or regulations or their manner of application could increase the company's cost of doing business and may adversely affect the company's business, profitability and cash flows.
- Humana's failure to manage acquisitions, divestitures and other significant transactions successfully may have a material adverse effect on the company's results of operations, financial position, and cash flows.
- If Humana fails to develop and maintain satisfactory relationships with the providers of care to its members, the company's business may be adversely affected.
- Humana's pharmacy business is highly competitive and subjects it to regulations in addition to those the company faces with its core health benefits businesses.
- Changes in the prescription drug industry pricing benchmarks may adversely affect Humana's financial performance.
- If Humana does not continue to earn and retain purchase discounts and volume rebates from pharmaceutical manufacturers at current levels, Humana's gross margins may decline.
- Humana's ability to obtain funds from certain of its licensed subsidiaries is restricted by state insurance regulations.
- Downgrades in Humana's debt ratings, should they occur, may adversely affect its business, results of operations, and financial condition.
- The securities and credit markets may experience volatility and disruption, which may adversely affect Humana's business.

In making forward-looking statements, Humana is not undertaking to address or update them in future filings or communications regarding its business or results. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed herein may or may not occur. There also may be other risks that the company is unable to predict at this time. Any of these risks and uncertainties may cause actual results to differ materially from the results discussed in the forward-looking statements.

Humana advises investors to read the following documents as filed by the company with the SEC for further discussion both of the risks it faces and its historical performance:

- Form 10-K for the year ended December 31, 2018; and
- Form 8-Ks filed during 2019.

### **About Humana**

Humana Inc. (NYSE: HUM) is committed to helping our millions of medical and specialty members achieve their best health.

Our successful history in care delivery and health plan administration is helping us create a new kind of integrated care with the power to improve health and well-being and lower costs. Our efforts are leading to a better quality of life for people with Medicare, families, individuals, military service personnel, and communities at large.

To accomplish that, we support physicians and other health care professionals as they work to deliver the right care in the right place for their patients, our members. Our range of clinical capabilities, resources and tools – such as in-home care, behavioral health, pharmacy services, data analytics and wellness solutions – combine to produce a simplified experience that makes health care easier to navigate and more effective.

More information regarding Humana is available to investors via the Investor Relations page of the company's website at [humana.com](https://www.humana.com), including copies of:

- Annual reports to stockholders
- Securities and Exchange Commission filings
- Most recent investor conference presentations
- Quarterly earnings news releases and conference calls
- Calendar of events
- Corporate Governance information

**Language:**

English

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